UAB PayRay Bank

SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Contents

General information

UAB PayRay Bank
Telephone: +370 611 64487
Company code: 304862948
Lvivo g. 25-702, Vilnius, Lithuania

Renato La Fianza (Director (CEO))

Board members

Renato La Fianza
Mindaugas Stasionis
Paulius Jokšas
Gianluca Balducci

Registered Office

Lvivo g. 25-702
Vilnius
Lithuania

Auditor

KPMG Baltics, UAB
Lvivo g. 101, Vilnius, Lithuania

Banks

Šiaulių bankas AB
AB SEB Bankas
Luminor Bank AS
Bank of Lithuania

1. Annual management report of the reporting period

This annual management report has been prepared for 2021. Annual management report presents the information of PayRay Bank, UAB ("the Bank").

2. State of the Bank and overview of activities

In 2019, the Bank received a bank's licence, and started banking activities on 15 October 2020; 100% of its share capital and voting rights belong to 2404 S.A. PayRay Bank, UAB is a company holding a bank's licence, supervised and regulated by the Bank of Lithuania and European Central Bank. The headquarters of the Bank are located in Vilnius, Lithuania.

In 2020 acceptance of deposits and other repayable funds from non-professional market participants was initiated. The Bank provides financing to legal entities.

The Bank has investments in subsidiaries: in September 2020, a subsidiary was established in Latvia – PayRay SIA, and in 2021 a subsidiary was established in Estonia – PayRay Estonia OU. The subsidiary in Estonia does not carry out activities. The Bank and subsidiaries are hereinafter jointly referred to as the Group.

The Bank has no physical service locations, except for the central headquarters in Vilnius (and headquarters for subsidiary in Riga); it does not carry out operations in cash, all services to depositors are provided via the Raisin platform, and website. Services to lending clients are provided via direct or remote meeting.

The Bank does not hold and did not acquire own shares in 2021. Subsidiaries did not acquire the Bank's shares either. The Bank and its subsidiaries have neither acquired not disposed own shares during the reporting period.

As at 31 December 2021, the Bank's equity amounted to EUR 34 268 670.

As at 31 December 2021, the Bank's assets amounted to EUR 181 344 560.

In 2021, the Group incurred a loss of EUR 462 973 EUR, the Bank's loss amounted to EUR 93 996.

Net interest income of the Group increased by 141%, income from other activities increased by 541% if compared to the previous financial year.

The Group's operating expenses increased by 25%, the Bank's operating expenses increased by 98%. Interest expenses on deposits amounted to EUR 500 954.

The financing portfolio granted by the Group based on the type of financing as at the last day of the financial year:

Factoring EUR 39 694 636

Loans EUR 82 548 225

Leasing 834 712

The Bank's compliance with prudence ratios as at 31 December 2021 (%) is presented in the table below:

Name	Bank	Group
Capital adequacy	26.93	31.45
Coverage by liquid assets ratio	3 616.69	3 616.69

3. Strategy and plans

The Bank provides services in Germany, Lithuania and Latvia. The Raisin platform provides natural entities with the opportunity to choose a bank deposit offer with favourable Bank's interest. In 2022 the Bank plans to sign an agreement with another similar deposit attraction platform in Germany; therefore, the number of clients is expected to grow enabling the Bank to diversify its geographic concentration for attracting deposits.

As of QIV of 2021 the Bank started successfully providing leasing services to business customers in Lithuania. In QI of 2022 the Bank plans to start providing leasing services to business clients in Latvia.

In 2022 the Bank plans to establish a branch in Italy and provide financing to businesses there.

In Q1 of 2021 the Bank signed an agreement with the Rural Credit Guarantee Fund on loans with preferential interest rates regarding the financing of farmers affected by COVID-19.

In Q1 of 2021 the Bank and the European Investment Fund (EIF) signed two guarantee agreements to finance difficulties facing small and medium sized enterprises from the European Guarantee Fund (EGF). These agreements were renewed and re-signed on 12 December 2021, and the total portfolio of guaranteed financing was increased up to EUR 280 000 000. The EGF guarantee may be applied to a wide package of financial products: Investment and working capital loans, leasing, factoring. As a result, companies will be able to achieve a support that meets their need best and that will generate most benefit in a flexible manner. This measure is subject to less sector restrictions, and the guarantee is subject to lower pledge requirements. Maximum amount of financing with the EGF guarantee is EUR 6 million. The guarantee is issued for the period from 3 months to 10 years. Lithuanian and Italian companies that employ up to 499 employees will have the possibility to use portfolio EGF guarantees throughout 2022.

4. Information on research and development activities

The Bank did not carry out any research or development activities in 2021.

5. Organizational structure

The Bank's organizational structure meets the specifics of the business model based on which provision of banking services is based on the use of IT technologies and implementation of advanced international business practice.

The Supervisory Council consists of four independent members who are not related to the Bank in terms of employment relations.

The Supervisory Council appoints the Bank's Board which currently consists of: Head of Administration, Deputy Head of Administration, Head of Business Operations in the Baltic States, Head of Technologies.

The Supervisory Council delegates certain functions to the Bank's Audit Committee, the members of which are the same as those of the Supervisory Council.

Seeking to ensure continuing operations of the Bank, the Bank's Board is responsible for the Bank's risk profile control and monitoring. The Board is regularly informed on the Bank's compliance with prudence ratios. Also, the Bank's Board appoints Credit Committee which is responsible for the control and monitoring of crediting operations.

In addition to the duties related to chairing the Board and managing the Bank's Business Maintenance and Development Departments, is also responsible for daily business operations which include the following:

- Administration of office and its infrastructure;
- Staff Supervision;
- Supervision of operations of the Technologies Department.

Cooperation with the authorities supervising the Bank's activities and responsibilities of the Deputy Head of Administration.

6. Strategy implementation

The implementation of the Bank's strategy is based on the supply of services tailored to small and medium sized enterprises, the needs of which are not satisfied by traditional commercial banks. The Bank's competitive advantage is based on the key client-focused principles:

- Flexible business financing solutions;
- Rapid and smooth processes from decision-making to client financing;
- Expert approach in the segment of small and medium sized businesses.

7. Governance structure

The Bank's management bodies are the Bank's General Meeting of Shareholders, the Bank's Supervisory Council, the Bank's Board and the Bank's Head of Administration. The Bank's management bodies are the Bank's Board and the Bank's Head of Administration.

The Heads of the Bank are the members of the Supervisory Council, members of the Board, the Head of Administration, Deputy Head of Administration and the Head of Internal Audit Service.

The General Meeting of Shareholders is convened annually, no later than within 4 months after the end of the financial year. Extraordinary general meetings of shareholders may also be convened. The General Meeting of Shareholders has an exclusive right to:

• Amend the Articles of Association of the Bank, except for the exceptions set by laws;

• Elect and revoke the members of the Bank's Supervisory Council;

• Elect and revoke an audit company to perform the audit of the annual financial statements; set the conditions for payment for audit services;

• Approve the set of the Bank's annual financial statements, distribution of profit (loss), formation, use, reduction and annulment of reserves;

• Increase and reduce authorised capital except for the exceptions set by legislation;

• Adopt other decisions provided in the Articles of Association of the Bank.

The General Meeting of Shareholders may also decide on other issues if, following the legislation and the Bank's Articles of Association, it is not assigned to other Bank's bodies and if these are not the functions of the Bank's managing bodies.

The Bank's Supervisory Council is a collegial supervisory body supervising the Bank's activities. The Supervisory Council is headed by its Chairman. The Bank's Supervisory Council, consisting of 4 (four) members is elected by the General Meeting of Shareholders for a period of four years. Four independent members have been elected to the current Supervisory Council. The functions of the Supervisory Council:

• Elects the Bank's Board members and removes them from office. If the activities of the Bank are loss-making, the Supervisory Council must consider whether the Board members are fit for the position;

• Supervises the activities of the Board and of the Head of Administration;

• Adopts the working regulation of the Bank's Supervisory Council;

• Approves the Bank's activity plans;

• Ensures that effective internal controls and internal audit systems are in place;

• Forms the Audit Committee and approves its regulations;

• Submits suggestions and feedback to the General Meeting of Shareholders on the Bank's activity strategy, the set of the Bank's annual financial statements, draft appropriation of profit (losses) and the Bank's annual management report as well as on the activity of the Head of Administration;

• Sets the procedure of lending which is only possible with the consent of the Supervisory Council;

• Submits suggestions to the Board and Head of the Bank to revoke their decisions if they are in conflict with laws and other legal acts, the Bank's Articles of Association or decisions of the General Meeting of Shareholders;

• Considers and makes decisions on other matters which, based on the legislation, the Bank's Articles of Association and the decisions of the General Meeting of Shareholders must be considered or decided on by the Supervisory Council.

The Bank's Board is a collegial management body of the Bank consisting of 4 (four) members. It manages the Bank, handles its matters and is liable for the Bank's financial services. The working procedure of the Board is set by the Board's working regulation. The Board members are elected, removed from the office and supervised by the Bank's Supervisory Council. The Bank's Board considers and approves:

• The Bank's annual management report;

• The Bank's governance structure and employees' positions as well as positions to which employees are recruited with the approval of the Board or by the procedure of competition;

• Regulations of the Bank's divisions;

• Regulations of the Bank's Credit Committee;

• Determines the information which is considered the Bank's commercial secret and confidential information.

In addition, the Board elects (appoints) and removes from office the Bank's Head of Administrations and Deputies.

The Board makes the following decisions:

• Decisions on the Bank's becoming the founder or participant of other legal entities;

• Decisions on the establishment of the Bank's branches, representative offices and other distinct Bank's branches or on terminating their activities;

• Decisions on the investment, disposal or lease of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (calculated separately for each type of transaction);

• Decisions on the pledge and mortgage of non-current assets the carrying amount of which exceeds 1/20 of the Bank's authorised capital (total amount of transactions);

• Decisions on sureties or guarantees for obligations of other persons the amount of which exceeds 1/20 of the Bank's authorised capital;

• Decisions on the acquisition of non-current assets for the price exceeding 1/20 of the Bank's authorised capital;

• Decisions on issuance of non-convertible bonds;

• Approves the Board's working regulation;

• Decisions on other matter which, under legislation and under the Bank's Articles of Association, must be considered and decided by the Board.

The Board implements the decisions taken by the General Meeting of Shareholders and by the Supervisory Council. The Board analyses and assesses the information submitted by the Head of the Bank on:

• Implementation of the Bank's activity plans;

• Organization of the Bank's activities;

• Financial position of the Bank;

• Results of economic activities, income and expenses, accounting date of stock-taking and other changes in assets.

In addition, the Board analyses, assesses the Bank's set of annual financial statements and draft appropriation of profit (loss) and submits them to the Supervisory Council and to the General Meeting of Shareholders. Also, the Board decides on other matters if, based on the legislation or the Bank's Articles of Association, they are not assigned to other Bank's bodies. The Board is responsible for the timely convening and organising of the general meetings of shareholders.

Credit Committee is a Committee established by the Board which is responsible for the supervision of the Bank's credit risks. The main responsibilities of the Credit Committee:

- Examine client credit requests;
- Decide on financing;
- Set financing conditions;

The Credit Committee is chaired by the Head of Credit Risk.

Head of Administration is a sole management body of the Bank organizing the Bank's activities and performing actions necessary to perform the Bank's functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities. The functions of the Head of Administration:

• To organize daily activities of the Bank;

• To employ and terminate the employment of the Bank's employees, to conclude and terminate employment agreements, to encourage them and impose penalties. The Head of the Bank is entitled to authorise another Bank's employee to perform the following actions:

• Without a separate authorisation, to represent the Bank in its relations with other parties, in court and arbitration;

• To issue and revoke authorisations to represent the Bank;

• To issue orders;

• To perform other actions necessary to perform its duties, to implements the decisions of the Bank's bodies and to ensure the Bank's activities.

The Head of Administration is responsible for:

• Organization of the Bank's activities and achievement of its goals;

• Preparation of the set of annual financial statements and of the Bank's annual management report;

• Conclusion of an agreement with the audit company;

• Submission of information and documents to the General Meeting of Shareholders, Supervisory Council and the Board as set by legislation or on request;

• Submission of the Bank's documents and data to the Registrar of the Register of Legal Entities;

• Submission of documents to the Registrar of the Register of Legal Entities;

• Public announcement by the information as set by laws and other legislation with the sources indicated in the Bank's Articles of Association;

• Submission of information to shareholders;

• Preparation of the Bank's list of shareholders and submission to the Register of Legal Entities;

• Performance of other duties set out in legislation, the Bank's Articles of Association and staff regulations of the Head of the Bank.

The Head of Administration acts on behalf of the Bank and is entitled to unilaterally conclude transactions except for the exceptions set by laws, the Bank's Articles of Association or the decisions of the Bank's organs.

8. Risk management and internal control

The Bank acknowledges that every employee of the organization is responsible for the effectiveness of risk management and internal control framework.

To manage risks, the Bank uses a three lines model. The three lines model contributes to a better understanding of risk management and control by clarifying different roles and duties expected from each employee.

The three lines model distinguishes three groups (or lines) participating in effective risk management:

- Functions assuming and managing risks;
- Functions responsible for risk control;
- Functions responsible for the independent assessment of the efficiency of risk management processes and internal control framework.

First line comprises all risk assuming functions at the Bank. The first line includes functions such as Products and services (including Credit), Treasury, Finance, Law and Technologies, are considered risk owners.

Second line comprises the Bank's risk monitoring and supervision functions. It comprises Risk control function, Compliance function and prevention of Money laundering, terrorist financing and financial crimes function.

<u>The risk control function</u>, steered by the Chief Risk Officer, is responsible for:

- Implementation and maintenance of risk management framework including all its components:
    - Implementation and supervision of the three lines model;
    - Implementation, continuous improvement and maintenance following the best bank practices of risk policy and risk taxonomy, including risk measurement and assessment measures, models and methodologies for all significant risks and stress testing;
    - Implementation and maintenance of the framework defining the Bank's risk appetite level, including processes and methodologies used for determining the risk appetite and allocation between divisions;
    - Risk reporting, including internal reports to the Supervisory Council, the Board and other risk reports;
    - Contribution to the development and improvement of the Bank's governance structure, focusing on the processes of risk reporting, risk monitoring and risk limits, elimination of risk incidents and other shortcomings of risk management;
    - Development, improvement and supervision of risk management IT solutions that ensure automation of various risk management framework elements;
- Risk supervision and control of the first line by implementing continuous quality ensuring and review of risk policy control measures which the first line must comply with;
- Submission of risks insights based on stress testing.

Chief Risk Officer is accountable to the Supervisory Council and by administrative procedure to the Deputy of Head of Administration.

Compliance function is responsible for behavioural and compliance risk, except for fraud-related risk, money-laundering prevention, fight against terrorist financing and sanctions control (but including risks of modern slavery, fight against bribery and corruption). It is responsible for the detection, assessment and monitoring of the Bank's behavioural and compliance risks and implementation of control framework, as well as for the submission of reports on the Bank's compliance with the effective laws and other regulations to the Bank's management bodies. This includes: i) assistance to the first line in identifying existent and potential behavioural and compliance risks and implementation of control measures to mitigate these risks; and ii) monitoring and testing of the efficiency of control measures in order to prevent behavioural and compliance risks from occurring or mitigating them.

Head of Compliance is accountable to the Supervisory Council and by administrative procedure to the Deputy Head of Administration.

The function of prevention of money laundering, terrorist financing and financial crimes bears the same responsibilities as the compliance function, but is responsible for the control and prevention of financial crimes and fraud-related risks as well as for the prevention of money-laundering and terrorist financing and for sanctions control.

The Head of the Bank's Money Laundering Prevention is accountable to the Supervisory Council and by administrative procedure to the Deputy Head of Administration.

Third line is related to Internal Audit function. The function is independent of the first and second lines of defence, and its responsibility includes:

- Issuance of independent opinion to the Audit Committee on whether the main risks have been properly identified and whether the control measures in place are adequate and effective;
- Cooperation with the top managers and heads of different functional areas of the Bank by providing conclusions on the detected shortcomings, insights and recommendations seeking to improve the internal control and risk management framework of the Bank;
- Submission of independent assessment to supervisory authorities on specific risks and control measures.

The Head of Internal Audit Service is accountable to the Audit Committee which holds meetings at least quarterly. The Audit Committee accounts to the Bank's Supervisory Council at least once a year.

External auditor expresses an opinion of the effectiveness of internal control of the Bank in the context of financial statements.

9. Employees

In 2021, the average number of employees was 49 (2020: 27). In line with the growth of the scope of the Bank's services, the number of employees is being increased.

The table below includes the information of the actual number of the Bank's employees and average monthly remuneration (gross).

	Number of employees		Average monthly remuneration (EUR)	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Managers	14	19	6 377	4 281
Specialists	44	35	2 809	1 265
Total	**58**	**54**	**3 681**	**2 326**

10. Remuneration Policy

The information below has been prepared in accordance with Item 14 of Resolution No 03-82 "Regarding Approval of Description of the Minimum Remuneration Policy Requirements for Employees of Credit Institutions and Financial Brokerage Firms" of 8 May 2015 of the Board of the Bank of Lithuania redirecting to Article 450 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012.

Information on the link between remuneration and performance results

The Remuneration Policy applied by the Bank was designed to attract, maintain and motivate the Bank's employees possessing necessary skills and competences, encourage reliable performance, trustworthy conduct and effective risk management. The remuneration system has been designed to encourage employees to consistently follow the principles of ethics and values of the Bank in their work, and act taking into consideration the Business and Risk Management Strategy of the Bank.

The purpose of the Remuneration System applied by the Bank is to:

- Ensure that employees receive competitive remuneration;
- Ensure that cases where a decision is made to pay the Variable Remuneration and the principles of payment thereof were in compliance with long-term interests related to guaranteeing the continuous operation of the Bank, business strategy, goals and vales, fostered reliable and effective risk management, allowed avoiding conflicts of interests and ensured that the Remuneration paid would not stimulate employees to assume excessive risk;
- Correlate an employee's remuneration with an individual assessment of each employee's performance.

In accordance with the review process, described in the Remuneration Policy, the Bank continuously monitors and ensures that the aforementioned goals were properly implemented, and no conflicts of interest resulted from them (with customers of the Bank or any other).

The main features of the structure of the Remuneration System, including information about criteria used in assessment of performance, and adjustment of risk, the deferral policy and the eligibility criteria

The remuneration of the Bank consists of the fixed and variable remuneration.

The fixed remuneration is the one established by the employment contract, concluded with the employee.

The variable remuneration included additional payments as a part of the Remuneration, offered in consideration of the sustainable operation of the Bank, which is adapted to a relevant risk, and (or) individual activity of the employee, exceeding the set goals of activity, and also taking into consideration the quantitative criteria, such as client satisfaction, compliance with internal rules, cooperation with colleagues.

The Remuneration Policy of the Bank provides for additional requirements for Target Employees.

Information related to the decision-making process, applied in establishment of the Remuneration Policy

The Remuneration Policy of the Bank was approved by the Supervisory Council on 9 December 2021. The Remuneration Committee has not been formed, the Supervisory Council establishes and monitors the remuneration of management, also remuneration of senior officers, performing independent control functions, including those of internal audit, risk management and compliance.

Target Employees are defined as employees of the Bank (including the Bank's executive staff, bodies of management and supervision), the professional activity and (or) decisions adopted whereof have a material impact on the nature of the Bank's risk, and who are treated as such, based on the performed analysis of quantitative and qualitative parameters, established according to the criteria, defined in Article 3 and 4 of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. In 2020, the function of regulatory compliance reviewed and expanded the list of Target Employees, taking into account the changes of employees and their responsibilities in the Bank, and based on the newly announced technical standard of EBA, providing for criteria, defining the responsibility of the management and control functions, material business unit and material impact on the nature of its risk, and also the categories of employees whose professional activity has a material impact on the nature of the risk of the institution (EBA / RTS / 2020/05, 18 June 2020). The amendments therein were approved by the Board and the Supervisory Council of the Bank.

The category of Target Employees includes the employee categories specified in Article 3 and 4 of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014, and clarified in the regulation technical standard of EBA, setting out the criteria, defining the management's responsibility and control functions, material business unit and material impact in the nature of its risk, as well as categories of employees whose professional activity has a material impact in the nature of risk of the institution, fall within the category of Target Employees.

The ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of the Directive

Information on valuation criteria for operating results on which the right to shares, options or variable portions of remuneration is based

The portion of variable remuneration for Target Employees is paid based on the following principle: 50% of fixed remuneration is paid for the previous or current year, and payment of the remaining 50% portion is deferred for a period of 3 years. The latter portion of variable remuneration can vary each year based on the algorithms provided in the Remuneration Policy of the Bank, depending on the Bank's operating results.

The pool of variable remuneration / forecast for the financial year is established only upon assessment of the financial activity results of the Bank, taking into account current and future risks, working capital expenses, and liquidity support. As variable remuneration for Target Employees is granted for the period of three years, this assessment must ensure that the ability of the Bank to strengthen its capital base is not limited when forming the pool of variable remuneration.

Variable remuneration is granted taking into consideration the following: financial activity results of the Bank (considering directly the operating results), operating results of the relevant structural department for the assessed period, and evaluation of qualitative and quantitative (both financial and non-financial) criteria for assessment of employees' performance results. Qualitative criteria include achievement of strategic goals, leadership, teamwork, creativity, motivation, proactiveness, initiative, loyalty, co-operation with other employees, implementation of goals and tasks formed by direct managers, feedback from direct managers and customers, etc. In all cases, this assessment comprises the evaluation on how an employee complies with high professional standards of the Financial Department and demonstrates compliance with Ethical principles of the Bank, its values and the culture of risk management. Performance criteria are set in a manner they do not promote assuming excessive risks or wrong sale of products, and the balance between compliance and risk-assuming for business objectives is retained.

11.Information on the positions held by managers

Information on other functions of the Director of the Bank, of the Board Members of the Bank and of the Members of Supervisory Council of the Bank is presented in the table below:

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/ organizations where the person holds managerial positions	Duties at other company/ organization
Renato La Fianza	Board	PayRay Bank, UAB	Head of Administration	-	-
Mindaugas Stasionis	Board	PayRay Bank, UAB	Deputy Head of Administration	Anahata buveinė, VšĮ - Head	Anahata buveinė, VšĮ - Head
Paulius Jokšas	Board	PayRay Bank, UAB	Head of Business Operations in the Baltic States	-	-
Gianluca Balducci	Board	PayRay Bank, UAB	Head of Technologies	-	-
Gintautas Galvanauskas	Supervisory Council	UAB Joldija – Chairman of the Board, Head of Business Develop-ment	Chairman of the Supervisory Council	GGLIF, UAB – Managing Director; UAB Energia futura – Member of the Board; VŠĮ Futbolo klubas – Member of the Board; UAB Joldija – Chairman of the Board, Head of Business Development.	GGLIF, UAB – Managing Director; UAB Energia futura – Member of the Board; ŠĮ Futbolo klubas – Member of the Board; UAB Joldija – Chairman of the Board, Head of Business Development.
Kęstutis Šliužas	Supervisory Council	IPI Srl, CEO	Member of Supervisory Council	Kaunas University of Technologies – Member of the Council; AB Lietuvos Geležinkeliai –	Kaunas University of Technologies – Member of the Council; AB Lietuvos Geležinkeliai –

Name, surname	Management body of PayRay Bank, UAB	Main employment	Duties at the company PayRay Bank, UAB	Other companies/ organizations where the person holds managerial positions	Duties at other company/ organization
				Chairman of the Board; IPI Srl, Director.	Chairman of the Board; IPI Srl, Director.
Tomas Andrejauskas	Supervisory Council	Satimed, UAB – Head of Business Develop-ment, Managing Partner;	Member of Supervisory Council	Fitodenta, UAB – Director; Satimed, UAB – Head of Business Development, Managing Partner; Lithuanian Biotechnology Association - President; Bioremedium, UAB – Senior Technologist; Lithuanian Confederation of Industrialists - Vice President.	Fitodenta, UAB – Director; Satimed, UAB – Head of Business Development, Managing Partner; Lithuanian Biotechnology Association - President; Bioremedium, UAB – Senior Technologist; Lithuanian Confederation of Industrialists - Vice President.
Roberto Pollara	Supervisory Council	-	Member of Supervisory Council	-	-

12. Significant events after the end of the reporting period

On 24 February 2022, following the recognition of self-proclaimed republics of Donetsk and Lugansk by the Russian Federation and its subsequent invasion of Ukraine, the military conflict escalated and spread to other regions of that country. The current escalation of the military conflict is likely to have a detrimental impact on the political and business environment in Ukraine, including on the ability of many entities to continue business as usual. In view of the above, as at the date these financial statements were authorised for issue, the situation in Ukraine is extremely volatile and inherently uncertain.

Administration of PayRay Bank, UAB (hereinafter– the Bank) immediately took the steps necessary to assess the possible impact of the Ukrainian war and the sanctions imposed on the Russian Federation and the Republic of Belarus (hereinafter – the Risk Countries).

In order to reduce and manage the impact of sanctions on the quality of the Bank's assets, a working group was set up at the Bank with the purpose of approving action plans individually for each client of the sampling. Client managers contacted the clients in order to gain an understanding of the opinion of the managers themselves on the situation at hand, the relationship with the Risk Countries, potential problems of human resources and further plans regarding the ability to continue business as usual. The information gathered was used to estimate potential losses regarding the positions assessed.

Based on the Bank's current key performance indicators and operations in other markets, the Bank's management does not anticipate a direct immediate and significant adverse impact of the current situation as described in the previous paragraphs on the Bank, its operations, financial position and operating results. Management cannot however preclude the possibility of an escalation of the general market uncertainty to other markets, or a consequential adverse impact on the economic environment the Bank operates, that might have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term.

After the end of the financial year until the date of approval of these financial statements there were no other significant events which would have effect on these financial statements or require additional disclosure.

PayRay Bank, UAB

Head of Administration

Renato La Fianza

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Independent Auditor's Report

To the Shareholders of PayRay Bank UAB

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of PayRay Bank UAB ("the Bank"). The Bank's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2021,
- the separate statement of profit or loss and other comprehensive income for the year then ended,
- the separate statement of changes in equity for the year then ended,
- the separate statement of cash flows for the year then ended, and
- notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2021, and of their unconsolidated financial performance and their unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment of loans granted and factoring receivables

The gross amount of loans granted in the separate financial statements as at 31 December 2021: EUR 84 207 thousand (2020 EUR: 15 432 thousand); total allowances for impairment losses as at 31 December 2021: EUR 824 thousand (2020: EUR 333 thousand); of which impairment losses on loans granted recognised in 2021: EUR 490 thousand (2020: EUR 107 thousand); the gross amount of factoring receivables as at 31 December 2021: EUR 39 828 thousand (2020: EUR 22 160 thousand); total allowances for impairment losses as at 31 December 2021: EUR 133 thousand (2020: EUR 119 thousand); of which impairment losses on factoring receivable recognised in 2021: EUR 14 thousand (2020: EUR 8 thousand).

Refer to Note 4 on page 31 (Accounting policies) and Notes 13 Loans issued to clients and Note 15 Factoring receivables.

The key audit matter	How the matter was addressed in our audit
Impairment allowances represent the Management's best estimate of the expected credit losses ("ECLs") within loans granted and factoring receivables (collectively,"loans", "exposures") at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management over the amount of any such impairment. Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward- looking information and management judgment are incorporated into the model assumptions. For non-performing exposures (Stage 3), the impairment assessment is based on the Bank's knowledge and understanding of each individual borrower's circumstances. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the continued COVID-19 global pandemic on multiple sectors of the economy, impairment of loans was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	Our audit procedures in the area included, among others: — obtaining understanding of the Bank's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9 standard. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. Additionally, assisted by our own Financial Risk Management ("FRM") specialists, we have challenged the Management on whether the level of the methodology's sophistication is appropriately based on our assessment of the entity-level and portfolio-level factors; — obtaining an understanding of the Bank's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test; — making inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain understanding of the IT applications used in the loan impairment process, and also assessing and testing the IT control environment for data security and access, assisted by our own IT specialists; — testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events / default, appropriateness of classification into performing and non-performing exposures, calculation of days past due and validation of the overall ECL estimate;

	— assessing whether the definition of default and the staging criteria were applied consistently and in accordance with the relevant financial reporting standards; — evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic; — For collective impairment allowance: • obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's ECL assessment. Independently assessing the information by means of inspection of publicly available information and corroborating inquiries of the Management; • challenging the collective loss given default (LGD), exposure at default (EAD) and probability of default (PD) parameters used by the Bank, by reference to historical defaults, industry practice and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances; — For impairment allowances calculated individually, for a risk-based sample of loans: • critically assessing the existence of any triggers for classification to Stage 3 as at 31 December 2021, by reference to the underlying documentation (loan files) and through discussion with Management and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern. • for the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Bank's estimates of future cash flows such as primarily collateral values (including related haircuts) and realization period by reference to our inspection of external valuation reports, the Bank's internal evidence and analyses and publicly available market transaction data. — evaluating the accuracy and completeness of the loan impairment and credit risk-related disclosures in the financial statements by reference to the requirements of the applicable financial reporting framework.

Other Information

The other information comprises the information included in the annual management report, but does not include the separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the annual management report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements and whether annual management report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate financial statements, in our opinion, in all material respects:

- The information given in the annual management report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- The Bank's annual management report, has been prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders‘ meeting we were appointed on 31 July 2020 for the first time to audit the Bank‘s financial statements. Our appointment to audit the Bank‘s financial statements is renewed every two years under decision of the general shareholders‘ meeting, and the total uninterrupted period of engagement is 2 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Bank and its Audit Committee together with this independent auditor‘s report.

We confirm that in light of our knowledge and belief, services provided to the Bank are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, in addition to the audit of financial statements we have provided translation service.

On behalf of KPMG Baltics, UAB

DOMANTAS DABULIS

Digitally signed by DOMANTAS DABULIS
Date: 2022.04.05 19:33:48 +03'00'

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
5 April 2022

The electronic auditor‘s signature applies only to the Independent Auditor‘s Report on pages 17 to 22 of this document.

UAB PayRay Bank
Company code: 304862948, Lvivo g. 25-702, Vilnius, Lithuania

Separate statement of profit or loss and other comprehensive income

for the year ended 31 December

	Notes	01/01/2021 – 31/12/2021	01/01/2020 – 31/12/2020
Interest income calculated using effective interest rate method	6	5 832 870	2 306 925
Delinquency	6	9 537	35 453
Interest expense for:	6	(500 954)	(259 168)
Net interest income		5 341 454	2 083 210
Other operating income	6	82 481	8 200
Total revenue		**5 423 935**	**2 091 410**
Impairment losses on receivables	22	(641 479)	(115 358)
Impairment losses on cash at bank	17	(1 962)	(71)
Staff costs	7	(2 852 602)	(1 680 364)
Administrative expenses	7	(2 031 720)	(986 059)
Finance costs	8	(3 680)	(7 096)
Profit (loss) before tax		**(107 508)**	**(697 538)**
Income tax expense	9	13 512	99 763
Profit (loss) for the year		**(93 996)**	**(597 775)**
Other comprehensive income (OCI)		-	-
Total comprehensive income for the year, net of tax		**(93 996)**	**(597 775)**

The accompanying notes are an integral part of these separate financial statements.

Director
Renato La Fianza

(signature)	5 April 2022 (date)

Person authorised by BDO Auditas ir Apskaita
Simona Giedraitienė

(signature)	5 April 2022 (date)

UAB PayRay Bank
Company code: 304862948, Lvivo g. 25-702, Vilnius, Lithuania

Separate statement of financial position

for the year ended 31 December

	Notes	2021.12.31	2020.12.31
Assets			
Cash and balances with central banks	17	54 522 842	4 860 689
Loans issued to clients	13	83 382 938	15 098 212
Factoring receivables	15	39 694 636	22 040 173
Investments into subsidiaries	14	2 002 500	250 000
Intangible asset	11	587 115	526 280
Property, plant and equipment	10	112 814	77 830
Right-of-use assets	12	238 175	109 879
Deferred income tax asset	9	376 269	362 757
Other financial assets	16	108 899	31 365
Other non-financial assets	16	2 552	3 068
Deferred costs and accrued income	16	315 818	7 933
Total assets:		**181 344 560**	**43 368 186**
Liabilities			
Client deposits	19	141 850 047	6 067 402
Finance lease and similar liabilities	12	239 622	132 786
Amounts payable	20	4 529 966	2 757 579
Provisions	20	137 404	-
Accrued expenses and deferred income	20	318 851	47 753
Total liabilities:		**147 075 890**	**9 005 521**
Equity			
Authorised capital	18	36 424 791	36 424 791
Retained earnings	18	(2 156 121)	(2 062 125)
Other reserves		-	-
		34 268 670	**34 362 666**
		181 344 560	**43 368 186**

The accompanying notes are an integral part of these separate financial statements.

Director
Renato La Fianza

	(signature)	5 April 2022 (date)

Person authorised by BDO Auditas ir Apskaita
Simona Giedraitienė

	(signature)	5 April 2022 (date)

Separate statement of changes in equity

for the year ended 31 December

	Authorised share capital	Retained earnings (loss)	Total equity
31 December 2019	**20 000 000**	**(1 464 350)**	**18 535 650**
Net profit / (loss) for the year	-	(597 775)	(597 775)
Other comprehensive income	-	-	-
Total comprehensive income	-	(597 775)	(597 775)
Issue of share capital	16 424 791	-	16 424 791
31 December 2020	**36 424 791**	**(2 062 125)**	**34 362 666**
1 January 2021	**36 424 791**	**(2 062 125)**	**34 362 666**
Net profit / (loss) for the year	-	(93 996)	(93 996)
Other comprehensive income	-	-	-
Total comprehensive income	-	(93 996)	(93 996)
Issue of share capital	-	-	-
Settlement of previous year losses	-	-	-
31 December 2021	**36 424 791**	**(2 156 121)**	**34 268 670**

The accompanying notes are an integral part of these separate financial statements.

Director
Renato La Fianza

	5 April 2022
(signature)	(date)

Person authorised by BDO Auditas ir Apskaita
Simona Giedraitienė

	5 April 2022
(signature)	(date)

Separate cash flow statement

for the year ended 31 December

	Notes	01/01/2021 – 31/12/2021	01/01/2020 – 31/12/2020
Operating activities			
Profit / (loss) for the year	9	(93 996)	(597 775)
Depreciation and amortisation of non-current assets	10,11	151 457	5 434
Depreciation of right-of-use assets	12	82 748	90 940
Elimination of other non-cash items		4 963	-
Net impairment loss on factoring receivables	15	13 674	8 405
Net impairment loss on loans	13	490 401	106 953
Net impairment loss on cash at bank	17	1 962	71
Net impairment of off-balance sheet liabilities	20	137 404	-
Net interest income	6	(5 341 454)	(2 083 210)
		(4 552 841)	(2 469 182)
Working capital adjustments			
(Increase)/decrease in loans granted	13	(68 775 127)	(12 885 619)
(Increase)/decrease in deferred tax assets	9	(13 512)	(99 763)
(Increase)/decrease in factoring receivables	15	(17 668 137)	11 166 365
(Increase)/decrease in other assets	16	(384 903)	7 284
Increase/(decrease) in deposits	19	135 782 645	6 067 402
Increase/(decrease) in amounts payable	20	2 043 485	(208 603)
		50 984 450	4 047 064
Interest	6	5 832 870	2 306 928
Late payments received	6	9 537	-
Interest paid	6	(500 954)	(259 168)
Net cash flows from operating activities		**51 773 063**	**3 625 642**
Cash flows from investing activities			
Investments into subsidiaries	14	(1 752 500)	(250 000)
Acquisition of property, plant and equipment	10	(50 014)	(58 982)
Acquisition of intangible assets	11	(197 262)	(322 436)
Net cash flows from investing activities		**(1 999 775)**	**(631 418)**
Financing activities			
Proceeds from issue of share capital		-	-
Inflows (outflows) from loans and borrowings	6	-	(1 742 154)
Payment of lease liabilities	12	(109 173)	(77 862)
Net cash flows from financing activities		**(109 173)**	**(1 820 016)**
Net increase/(decrease) in cash and cash equivalents		49 664 115	1 174 208
Cash and cash equivalents at beginning of the year/period	17	4 820 280	3 646 072
Cash and cash equivalents at 31 December	**17**	**54 484 395**	**4 820 280**

The accompanying notes are an integral part of these separate financial statements.

Director
Renato La Fianza

(signature) 5 April 2022 (date)

Person authorised by BDO Auditas ir Apskaita
Simona Giedraitienė

(signature) 5 April 2022 (date)

1. GENERAL INFORMATION

PayRay Bank, UAB (hereinafter – 'the Bank'), code 304862948, is a private limited liability company registered in Lithuania. On 18 September 2019 Vilnius factoring company, UAB name was changed to PayRay, UAB. The Company was registered as Vilnius factoring company, UAB, on 25 June 2018. The registered office is located at Lvivo g. 25-702, Vilnius, Lithuania.

On 3 December 2019 the European Central Bank together with the Bank of Lithuania granted to the Bank full banking license. The license secures a right to the Bank to collect deposits. The Company converted to a bank during Q3 2020. PayRay Bank, UAB converted to a bank on 15 October 2020.

The principal activity of the Bank is provision of financial services. The Bank provides financing to small and medium enterprises and collects deposits from natural and legal persons.

The deferral term of all of the Bank's short term financing and factoring transactions is up to 12 months, but the deferral term for majority of them is only 3 months.

Functioning of the Bank is not limited in time.

As at 31 December 2021 and 2020, the shareholder of the Bank was 2404 S.A., Bank code B224715, registered at 76, Grand Rue, L - 1660 Luxembourg, Luxembourg. The shareholder owns 100% of the Bank's shares.

In 2021 and 2020, the Bank has shares of one class, which are owned by one shareholder 2404 S.A. Controlling ultimate persons are individuals holding 50% of shares each.

In 2020 PayRay Bank, UAB established a company PayRay SIA. The Bank became the parent company of PayRay SIA owning 100% of the share capital of PayRay SIA. PayRay SIA is the Bank's subsidiary. The accounting policies of the subsidiary are based on the same International Financial Reporting Standards (IFRS) as the Bank's. Financial data of PayRay SIA is included in the consolidated financial statements prepared by the Bank.

In 2021, the Bank established a company PayRay Estonia OU. The Bank became the parent company of PayRay Estonia OU owning 100% of the share capital of PayRay Estonia OU. PayRay Estonia OU is the Bank's subsidiary. The accounting policies of the subsidiary are based on the same International Financial Reporting Standards (IFRS) as the Bank's. The financial figures of PayRay Estonia OU are included into the Bank's consolidated financial statements prepared, although the company did not carry out any activities in 2021.

As at 31 December 2021, the average number of the Bank's employees was 49 (31 December 2020: 27).

The shareholders of the Bank have a statutory right to either approve these separate financial statements or not approve them and require the management to prepare a new set of separate financial statements.

The financial reporting year of the Bank coincides with the calendar year.

2. Basis of preparation

The separate financial statements have been prepared in accordance with the requirements of Lithuanian legal acts on accounting and financial reporting and with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The separate financial statements are presented in euros and all values are rounded to the nearest whole number, except where otherwise indicated.

3. Significant accounting judgements, estimates and assumptions

These separate financial statements have been prepared under the assumption that the Bank will continue as a going concern. There are no indications at the date of approval of the financial statements that the Bank will not be able to continue its operations in the future, the Bank's activities are not limited.

The preparation of the Bank's financial statements in accordance with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following chapters of accounting policies:
- Chapter '**Financial Assets**'. Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Chapter '**Impairment of Financial Assets'**. Assumptions establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

The Bank's activities under Rural Credit Guarantee Fund measure to ensure the liquidity during the outbreak of COVID-19

As to the management's assessment, the Bank acts as a financial intermediary lending funds received from the Rural Credit Guarantee Fund under measure *Liquidity loans for economic operators in the production, processing and marketing of agricultural and fishery products during the COVID-19 outbreak.*
The basis for such assessment is an agreement with the Rural Credit Guarantee Fund, which defines the Bank as a financial intermediary that lends funds received from the Rural Credit Guarantee Fund, does not take final decisions on granting of funds to beneficiaries and is not liable, financially or otherwise, in case of insolvency of a beneficiary.
As the Bank acts as a financial intermediary under the above-mentioned incentive scheme, when applying IFRS, funds received by beneficiaries from the fund and interest payments receivable from beneficiaries under the mentioned incentive scheme are not accounted for in the Bank's financial statements (in assets or liabilities).

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 and 2020 is included in the following notes:
- Chapter **'Impairment of Financial Assets'**. Assumptions on the impairment of financial instruments determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details on taxes are disclosed in Note 9.

Accounting policies

In the process of handling its accounting records and financial reporting the Bank follows general accounting principles:

The bank's concept. In accordance with this principle, the Bank shall be considered as a separate unit of accounting and the Bank's financial statements shall reflect only its assets, equity and liabilities.

Principle of going concern. Financial statements shall be prepared based on the assumption that the Bank will continue its operations indefinitely and is not going to be liquidated or its operations shall not be suspended.

Principle of consistency. In order to ensure that the data of the financial statements for one period can be compared with data from other periods, the accounting rules and methods should remain unchanged for a sufficiently long period. If certain accounting policies are changed during or after a reporting period, (i) comparative information about financial results that would have been achieved with previous accounting policies, and (ii) information on current financial results must be provided in the explanatory notes to the financial statements.

4. Summary of significant accounting policies

Principle of accrual. Economic transactions and other events of the Bank shall be recorded in accounting when they occur and shall be presented in financial statements of such periods, irrespective of the receipt or payment of cash. Financial statements drafted applying the accrual principle shall inform their users not only about the past events but also about obligations to pay or receive cash in the future.

Principle of periodicity. The accounting activities of the Bank are divided into financial years or other reporting periods and the financial statements are prepared for that reporting period. Financial statements of the Bank shall be prepared on the basis of data as of the last day of the reporting period.

Principle of prudence. A conservative approach to decisions or transactions should be adopted, which implies prudent assessment of the outcome of the decisions and transactions, and ensures that revenues or assets are not overestimated and costs or liabilities are not underestimated.

Principle of comparability. Revenue earned during the reporting period shall be related to the expenses incurred to earn such revenue. Costs incurred in respect of different periods shall be allocated to the periods during which the Bank will earn the respective revenue. The accounting policies selected by the Bank shall provide for the application of new methods of accounting without violating the principle of comparability of financial statements. All financial statements shall provide disclosures covering the current reporting year and at least one previous financial year (comparative disclosures).

Principle of neutrality. The accounting information of the Bank shall be presented impartially. Presentation of accounting information should not affect the decisions taken by users of accounting information and should not result in predetermined outcome.

Substance over form. In registering economic transactions and other economic events of the Bank the greatest attention shall be paid to their substance and economic nature, rather than just formal presentation requirements or their legal form.

The principal accounting policies applied in the preparation of the Bank’s financial statements for 2021 are set out below.

Financial assets

Recognition and initial measurement

The Bank initially recognises factoring arrangements, loans and advances on the date on which they are originated.

The Bank recognises a financial asset in its statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified as measured at (i) amortised cost (ii) FVOCI (Fair Value through other Comprehensive Income) or (iii) through Profit or Loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

4. Accounting policies (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

<u>Business model assessment</u>

The Bank makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management.

The sole objective of the Bank's business model is to hold assets to collect contractual cash flows. The Bank's business model remained unchanged in 2021 and 2020.

The information considered for determining the objective of the business model includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, the Bank's strategy focuses on earning contractual interest income;
- the portfolio is evaluated and reported to the Bank's management based mainly on credit portfolio volume and interest income earned;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed are typical for the activity of holding assets and collecting contractual cash flows.

<u>Assessment of whether contractual cash flows are solely payments of principal and interest</u>

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:
- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms (if any);
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans).

<u>Derecognition of financial assets</u>

The Bank derecognises the financial assets when the contractual rights to the cash flows from this asset expire or when the right to receive the agreed cash flows from this financial asset is transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

4. Accounting policies (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the Bank transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract.

If a transfer of a financial asset does not result in derecognition because the Bank has retained substantially all the risks and rewards of ownership of the transferred asset, the Bank shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Bank shall recognise any income on the transferred asset and any expense incurred on the financial liability.

Impairment of financial assets

The Bank recognises loss allowances for ECL (expected credit loss) on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments (incl. factoring arrangements);
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date;
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (Stage 1).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’ (expected credit loss).

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’ (credit risk has not increased significantly).

Financial instruments for which a lifetime ECL is recognised and which are credit-impaired are referred to as ‘Stage 3 financial instruments’ (default).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

4. Accounting policies (continued)

Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in default;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades A1 and A2 is smaller than the difference between credit risk grades C2 and C3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Information obtained during periodic review of client information, e.g. financial statements, management accounts, budgets and projections, payment information and other information available in registers. Examples of areas of particular focus are:
- gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- data from credit reference agencies, press articles, changes in external credit ratings;
- quoted bond and credit default swap (CDS) prices for the borrower where available;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status as well as a range of variables about payment ratios;
- utilisation of the granted limit, timely payment;
- requests for and granting of forbearance;
- existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by characteristics and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

4. Accounting policies (continued)

The Bank uses own assumptions and expert judgements to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. The number, diversity and complexity of credit exposures is limited in 2021 and 2020; therefore, the Bank uses simple modelling of PD in a homogeneous portfolio.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank’s quantitative modelling:

Quantitative criteria for determination of SICR using credit risk grades

	Exposures in Stage 1
SICR automatic trigger for moving the financial instrument (credit exposure) across Stages	The Bank’s clients are grouped into 5 risk classes: 1. Low risk class; 2. Medium risk class; 3. Increased risk class; 4. High risk class; 5. Defaulting client is re-grouped to higher stage: - if the credit risk increases by more than one risk class, e.g. client risk exposure changed from Low risk class to Increased risk class; - if significant risk loss events become evident.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

For recourse factoring, as a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due (following the application of recourse).

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an exposure is measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the loss event itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. Usually, probation period of 3 months or any longer period that the Bank’s Credit Committee deems appropriate is used. Restructured loans are subject lo longer probation period.

4. Accounting policies (continued)

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for portfolio of financial instruments and, using an analysis of available data, has estimated relationships between macro-economic variables and credit risk and credit losses.

In determining the increase in credit risk, the Bank makes considers a broad range of information, including forward-looking information. In internal models, the Bank uses macroeconomic indicators such as gross domestic product (GDP) and unemployment rate forecasts, and actual indicators. For individual markets, their respective country-based indicators are used, i.e. separate for Lithuania and Latvia.

Therefore, information based on quarterly changes of actual and forecasted GDP and unemployment rates have been selected as a proxy for evaluating forward-looking macroeconomic impact on credit risk of the borrowers. Considering lagging nature of the indicators, combination of actual and forecasted data allows to smooth the fluctuations and avoid measurement biases.

To reduce the risk of financial assets, the Bank used guarantees of different institutions. The major part of portfolio is secured by the guarantees of state authorities. To mitigate risks, factoring transactions are insured.

However, the Bank always applies borrower-specific credit analysis and constant monitoring of the exposure. Therefore, all borrower-specific signs of possible future increase in credit risk are incorporated into client's PD on a regular basis.

4. Accounting policies (continued)

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. Since as at 31 December 2021 the Bank did not have sufficient historic data to reliably estimate individual LGD values, it has decided to use LGD of 45% for all corporate borrowers. The LGD of 45% is a widely accepted standard in financial industry used by many banks under ECB regulation (Standard Approach). Especially, when estimates based on historical record are not available.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

For lending and factoring commitments (limits), the EAD is not calculated since all contractual terms of lending and factoring commitments are fully revocable. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits or entire cancellation of the facility.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:
- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

4. Accounting policies (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4. Accounting policies (continued)

Financial liabilities

Financial liabilities are recorded when the Bank assumes a legal obligation to pay cash or settle other financial assets under an existing contract. Financial liabilities according to their measurement are classified as: measured at amortised cost and measured at fair value through profit or loss (this category includes financial liabilities held for trading). The fair value of term deposits is measured by discounting expected cash flows using current market interest rates for similar financial instruments with similar terms.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement.

Financial liability is derecognised when it is covered, revoked or expired.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences remaining share in the Bank's assets after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound instruments

The component parts of convertible loan are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium or ordinary shares. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

Amortised cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

4. Accounting policies (continued)

Fair Value Measurement Principles

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects the effect of its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Accounting of property, plant and equipment and intangible assets

Property, plant and equipment, intangible asset shall be attributed to fixed when all the following conditions are or the designation is: the Bank intends to use it for a period longer than one year, the Bank reasonably expects a flow of economic benefits from such asset in future periods, the Bank can reliably measure the acquisition costs of the asset, risk related to the asset has been transferred to the Bank and the acquisition cost of the asset exceeds the minimum cost of property, plant and equipment set by the Bank - EUR 500 (2020: EUR 1 150).

4. Accounting policies (continued)

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is charged on the assets on a straight line basis to allocate the cost to their residual values over useful lives.

Intangible assets are measured initially at acquisition cost, and thereafter at cost less any accumulated amortisation (except for goodwill) and any accumulated impairment losses.

Depreciation and amortisation rates (in years) for non-current assets

Group of non-current assets	Method	Rate (in years)
PROPERTY, PLANT AND EQUIPMENT		
Furniture	linear	6
Computers and communication equipment	linear	3
Assets other than listed above	linear	4
Intangible assets		
Software (computer)	linear	3
Core banking software	linear	5
Acquired rights	linear	3
Other intangible assets	linear	4

Impairment of non-financial assets

The Bank assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. Accounting policies (continued)

Leases

The Bank as a lessor

Finance lease receivables are accounted for at the amounts equal to the net present value of minimum lease payments subsequently reduced by principal payments received and increased by guaranteed carrying amount at the end of the agreement. Collected leasing amounts are allocated between the principal amount repayment and finance income.

Finance income is recognised over the lease term based on the model indicating a constant periodic return on the lessor's investments into finance lease. Main service fees collected under leasing are included into calculation of effective interest rate and net investments of lessee. The direct expenses of the lessor related to the agreement are an integral part of effective interest rate and reduce leasing income over the lease term. Provisions for receivable leasing payments are presented at negative amount in a respective line item of the statement of financial position.

The leasing amount receivable from the client is recognised in the statement of financial position when assets under agreement are transferred to the client. In cases when assets with longer delivery time have not yet been delivered to the client, amounts receivable from lessees under such agreements are recognised in the statement of financial position, line item "Other liabilities". Lease amounts paid for the assets not yet delivered are recognised in the statement of financial position as prepayments to suppliers, line item "Other assets".

The Bank as a lessee

An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for consideration. For such contracts, the application of IFRS 16 requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This results in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

At inception of an arrangement, the Bank determines whether the arrangement is or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

At inception or on reassessment of an arrangement that contains a lease, the Bank separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Bank concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Bank's incremental borrowing rate.

Leases of property, plant and equipment that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2021 of 3.52% (1 January 2020: 3.52%).

4. Accounting policies (continued)

Income

The Bank's income consists of income from interest, commissions, insurance fees, agreement fees and late payment interest arising from financing and factoring services under the contract with customers.

Interest income is recognised on an accrual basis, using the effective interest rate method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income items are generally recorded on an accrual basis when the service has been provided. Late payment interest income represents interest on delayed payment. Interest on late payment is recognised when it is highly probable to receive it.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Dividends

Dividends are recognised when the Bank’s right to receive payment is established. Penalty income and expense are recognized when received or incurred.

Costs

Costs are recognised based on the accrual and matching principles in the reporting period during which related income is earned, irrespective of the time the money was spent. Costs are divided into personnel expenses, impairment loss on receivables (related to operating activities of the Bank and intended for earning income), administrative expenses and finance costs (interest on loan received from shareholders, deposit interest and lease liabilities). Costs that are not related to income earned during the reporting period, but expected to generate future economic benefits, are recorded in accounting and presented in financial statement as assets. The portion of assets which is intended for earning income in future periods shall be recognised as expenses when the associated income is earned.

Transactions in foreign currencies

Transactions in foreign currencies are converted into Euros at the Euro and foreign exchange rates announced by the European Central Bank and Bank of Lithuania in accordance with the Law on Accounting at the date of the transaction. Resulting exchange differences are recognised in profit or loss for the year.

Employee benefits

Short-term employee benefits, such as salaries, vacation pays, performance-based cash awards and social security costs are recognised over the period when incurred.

4. Accounting policies (continued)

Taxes

Income tax expense comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of the previous year. It is measured using tax rate enacted or substantively enacted at the reporting date.

In accordance with the Law on Corporate Income Tax of the Republic of Lithuania, the current income tax rate is 15% on taxable income for 2020 and 2021. The charge for taxation included in these separate financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania. As of 2020, commercial banks operating in Lithuania are subject to income tax at the rate of 20%. Tax losses can be carried forward for indefinite time. Such transfer of losses shall be terminated if the Bank ceases to carry out the activities that caused such tax losses to emerge, unless the Bank ceases its activities because of reasons beyond its control. Only up to 70% of current year's taxable profits can be offset against tax losses carried forward.

Deferred tax is recognised on temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated using rates that are expected to be applied on temporary differences when they are reversed, using tax rate currently enacted or substantively enacted at the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Equity and Reserves

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

The net financial result (profit or loss) received during the financial year must be distributed not later than within 4 months after the end of the financial year, by the decision of the General Meeting of Shareholders approving the annual financial statements.

A legal reserve is a compulsory reserve under Lithuanian legislation. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. The legal reserve cannot be paid as dividends. The reserve may be used only for covering the losses.

Off-Balance Sheet Items and Post-Balance Events

Depending on the importance of post-balance events, the financial statements should be adjusted or not. The financial statements should be adjusted, if post-balance events have a direct material impact on the unaudited financial statements as of the end of the reporting period.

If the non-disclosure of post-balance events may affect the adoption of incorrect decisions by users of the financial statements, information about them must be disclosed in the explanatory notes.

5. New and amended standards and interpretations

Amendments to standards and interpretations which became effective in 2021

The effect of new and revised standards and their interpretations on the financial statements is described below. Those standards and interpretations that became effective on 1 January 2021 but which, on the Bank's reasonable belief, will not have material impact on the Bank's separate financial statements, are presented below.

- Amendments to IFRS 4 Insurance Contracts - IFRS 9 deferral (effective for annual periods beginning on or after 1 January 2021);

Amendments to IFRS 4 aim at addressing issues related to temporary accounting implications of different effective dates of IFRS 9 *Financial Instruments* and future IFRS 17 *Insurance Contracts*. To align the date of application of IFRS 9 with the new IFRS 17, amendments to IFRS 4 extend the practical exemption from IFRS 9 until 2023.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform - Phase 2 (effective as of 1 January 2021)

IFRS 9 and IAS 39 Financial Instruments: The amendments modify certain requirements for hedge accounting to provide an additional relief from IBOR reform uncertainty and its potential effect. In addition, the amendments require entities to provide additional information to investors on their hedging relationships directly affected by these uncertainties. These amendments have no effect on the Bank's financial statements as the Bank does not apply hedge accounting.

Standards and amendments to standards that are not yet effective

New standards and amendments to standards that are not expected to have a material effect on the Bank's separate financial statements are presented below:

• Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements to IFRS Standards 2018-2020 (effective for annual periods beginning on 1 January 2022);

• Amendments to IFRS 16-Leases - COVID-19-Related Rent Concessions beyond 30 June 2021 (effective for annual periods beginning on 1 April 2021);

• IFRS 17 Insurance Contracts, including amendments to IFRS 17 (effective for annual periods beginning on 1 January 2023);

• Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice statement 2) (effective for annual periods beginning on 1 January 2023);

• Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: definition of accounting estimates (effective for annual periods beginning on 1 January 2023).

• Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

6. Sales

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
	EUR	EUR
Interest income calculated using effective interest rate method	5 832 870	2 306 925
Delinquency	9 537	35 453
Total interest income	5 842 407	2 342 378
Interest expense for:	(500 954)	(259 168)
Net interest income	**5 341 454**	**2 083 210**
Customer assessment services	6 100	8 200
Other operating income	76 381	-
Insurance expenses	-	-
Total income	**5 423 935**	**2 091 410**

7. Personnel and administrative expenses

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
Staff costs	EUR	EUR
Wages and salaries	2 717 619	1 610 204
Social insurance costs	55 281	22 774
Vacation accruals	79 702	47 386
Total staff costs	**2 852 602**	**1 680 364**

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
Administrative expenses	EUR	EUR
Legal services	138 346	124 196
Assets and equipment rental	335 788	203 914
Contract services	26 795	59 350
Depreciation of right-of-use assets	82 748	90 940
Insurance expenses	85 075	72 000
Accounting	87 974	71 105
Telecommunication expenses	10 881	8 264
Public relations	21 898	36 472
Utilities	31 422	19 809
Using of external data systems	50 594	35 379
Audit fee expenses	41 255	35 500
Vehicle maintenance and fuel costs	16 749	12 549
Internal governance procedures costs	8 714	13 796
Prevention of money laundering services	23 980	8 333
Membership fee for bank association	41 450	8 942
Business trip expenses	12 659	3 834
Office maintenance costs	5 423	3 552
Translation services	4 344	9 245
Equipment acquisition costs	2 680	3 518
Credit limit decision costs	-	9 245
Support	5 300	-
Trainings, conferences	30 428	-
Maintenance of accounting software	6 880	-
Advertising	18 170	44 064
Recruitment expenses	102 471	39 355
Software maintenance	260 722	-
Sales agents and bank fees	95 250	-
Costs of term deposits	147 492	-
IT costs	128 271	-
Deposit insurance	22 003	-
Other	185 958	72 697
Total administrative expenses	**2 031 720**	**986 059**

8. Finance costs

	01/01/2021 - 31/12/2021	01/01/2020 - 31/12/2020
	EUR	EUR
Interest expenses on lease liabilities	(3 680)	(7 096)
Total finance costs	**(3 680)**	**(7 096)**

As at 31 December interest expenses on lease liabilities consisted of the following:

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
	EUR	EUR
Interest expense on lease of office premises	(1 933)	(4 964)
Interest expense on lease of vehicles	(1 747)	(2 132)
Total Interest expenses on lease liabilities	**(3 680)**	**(7 096)**

9. Taxes

The Bank had no current income tax charge for 2021 and 2020.

Reconciliation between tax loss and financial loss for the year ended 31 December is, as follows:

Reconciliation of effective tax rate:

		01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
		EUR	EUR
Profit/(loss) before tax		(107 508)	(697 538)
Income tax calculated using the statutory tax rate in Lithuania	15%	16 126	104 630
Tax effect of:			
Non-deductible expenses		(4 045)	(9 307)
Non-taxable income		1 431	5 318
Tax incentives		-	-
Additionally deductible expenses (decreasing profit / increasing loss)		-	-
Recognition of tax losses previously unrecognised			-
Total current year income tax expense		**13 512**	**100 641**
Adjustment to income tax of the previous year		-	(878)
Income tax expenses reported in the statement of profit or loss		**13 512**	**99 763**

Deferred tax assets and liabilities:

	2021	2020
	EUR	EUR
Increase (decrease) in deferred tax assets from tax loss	376 269	362 433
Accrued expenses	-	324
Total deferred tax asset	**376 269**	**362 757**

Income tax is calculated based on the Lithuanian tax legislation. As at 31 December 2021 and 2020 the standard income tax rate in Lithuania was 15%. As at 31 December 2021, the Company recognised 100% deferred tax assets for tax losses and temporary difference related to provision. The recognition is based on the Management's assumption that according to a three-year plan, the entire amount of deferred tax will be utilised in the next year.

10. Property, plant and equipment

	Furniture	Office equipment	Total
	EUR	EUR	EUR
Cost, original:			
Balance as at 1 January 2020	28 366	-	28 366
Additions	58 982	-	58 982
Disposals	-	-	-
Sold assets	-	-	-
Reclassification	-	-	-
Balance at 31 December 2020	87 348	-	87 348
Additions	5 952	44 062	50 014
Disposals	-	-	-
Sold assets	-	-	-
Reclassification	-	-	-
Balance at 31 December 2021	93 300	44 062	137 362
Accumulated depreciation:			
Balance as at 1 January 2020	(4 693)	-	(4 693)
Depreciation for the year	(4 825)	-	(4 825)
Disposals	-	-	-
Sold assets	-	-	-
Balance at 31 December 2020	(9 518)	-	(9 518)
Depreciation for the year	(15 030)	-	(15 030)
Disposals	-	-	-
Sold assets	-	-	-
Balance at 31 December 2021	(24 548)	-	(24 548)
Net book value as at 1 January 2020	**28 366**	**-**	**28 366**
Net book value as at 31 December 2020	**77 830**	**-**	**77 830**
Net book value as at 31 December 2021	**68 752**	**44 062**	**112 814**

Depreciation for the year ending 31 December 2021 was calculated in the amount of EUR 15 030 and has been included under administrative expenses in the Bank's Statement of profit or loss.

There was no impairment of property, plant and equipment as at 31 December 2021 and 2020.

There were no pledged property, plant and equipment during 2020-2021.

There were no fully depreciated property, plant and equipment, which were still in use in 2020-2021.

11. Intangible assets

	Software	Total
	EUR	EUR
Cost, original:		
Balance as at 1 January 2020	204 454	204 454
Additions	322 436	322 436
Balance as at 31 December 2020	526 890	526 890
Additions	197 262	197 262
Reclassification	-	-
Balance as at 31 December 2021	724 152	724 152
Accumulated amortisation:		
Balance as at 1 January 2020	-	-
Amortisation for the year	(610)	(610)
Impairment losses	-	-
Balance as at 31 December 2020	(610)	(610)
Balance as at 1 January 2021	-	-
Amortisation for the year	(136 427)	(136 427)
Reclassification		-
Impairment losses	-	-
Balance as at 31 December 2021	(137 037)	(137 037)
Net book value as at 1 January 2020	**204 454**	**204 454**
Net book value as at 31 December 2020	**526 280**	**526 280**
Net book value as at 31 December 2021	**587 115**	**587 115**

12. Right-of-use assets

The Bank has valid office premises, vehicles lease agreements.

Right-of-use assets

	Office premises	Vehicles	Total
	EUR	EUR	EUR
Balance as at 1 January 2020	92 337	67 870	160 207
Additions	40 611	-	40 611
Depreciation for the year	(72 773)	(18 167)	(90 940)
Balance as at 31 December 2020	**60 175**	**49 703**	**109 878**
Additions	165 295	50 713	216 008
Depreciation for the year	(64 126)	(18 622)	(82 748)
Write-offs	-	(4 963)	(4 963)
Net book value as at 31 December 2021	**161 344**	**76 831**	**238 175**

Lease liabilities

	Office premises	Vehicles	Total
	EUR	EUR	EUR
1 January 2020	**93 547**	**69 394**	**162 941**
Additions	40 611	-	40 611
Payments	(53 207)	(17 559)	(70 766)
31 December 2020	**80 951**	**51 835**	**132 786**
1 January 2021	**80 951**	**51 835**	**132 786**
Additions	165 295	50 713	216 008
Payments	(85 592)	(18 616)	(104 209)
Write-offs	-	(4 963)	(4 963)
31 December 2021	**160 653**	**78 969**	**239 622**

As at 31 December interest expenses on lease liabilities consisted of the following:

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
	EUR	EUR
Interest expense on lease of office premises	(1 933)	(4 964)
Interest expense on lease of vehicles	(1 747)	(2 132)
Total interest expenses on lease liabilities	**(3 680)**	**(7 096)**

12. Right-of-use assets (continued)

Impact of lease liabilities on cash flows:

	01/01/2021 - 31/12/2021	01/01/2020 – 31/12/2020
	EUR	EUR
Lease of office premises	88 809	58 171
Lease of vehicles	20 364	19 681
Total impact of lease liabilities on cash flows	**109 173**	**77 852**

As at 31 December the future minimum lease payments under operating leases were payable as follows:

	2021	2020
	EUR	EUR
Within one year	108 610	96 351
After 1 year but not later than within 5 years	131 012	36 435
After five years	-	-
	239 622	**132 786**

	2021	2020
Maturity analysis. Contractual discounted cash flows	EUR	EUR
Up to one year	108 610	96 351
From 1 to 5 years	131 012	36 435
More than 5 years	-	-
Total discounted lease liabilities at 31 December 2021	**239 622**	**132 786**

13. Loans issued to clients

As at 31 December loans granted consisted of the following:

	2021	2020
	EUR	EUR
Loans to related parties	5 070 500	-
Loans to customers	78 299 791	15 431 682
Impairment of loans granted (-)	(822 066)	(333 471)
Finance lease receivables	836 518	-
Leasing impairment allowance (-)	(1 806)	-
Carrying amount of loans granted to customers	**83 382 938**	**15 098 212**

In 2021, the Bank issued a loan of EUR 5 000 000 to SIA PayRay.
The amounts of loans granted also are the subject to the impairment requirements of IFRS 9, see Note 23.

Allocation of finance lease by maturities

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Gross investment	206 469	253 116	206 469	121 721	97 019	-	884 795
Unearned finance income	(11 687)	(14 327)	(11 687)	(6 890)	(5 492)	-	(50 083)
Net value	**194 783**	**238 788**	**194 783**	**114 831**	**91 528**	**-**	**834 712**

14. Investments in subsidiaries

As at 31 December, investments consisted of the following:

	2021	2020
Carrying amount of investments in capital	EUR	EUR
Investment into PayRay SIA	2 000 000	250 000
Investment into PayRay OU	2 500	0
	2 002 500	**250 000**

Investment of PayRay Bank into PayRay SIA and PayRay OU

Investments into subsidiaries	Country	Share in share capital as at 31 December 2021
PayRay OU	Estonia	100%
PayRay SIA	Latvia	100%

15. Factoring receivables

The carrying amount of factoring receivables includes receivables which are subject to all types of factoring arrangements. The Bank has three types of factoring arrangements: recourse, limited recourse and recourse factoring. All these amounts receivable are also subject to the impairment requirements of IFRS 9.

As at 31 December, other factoring receivables consisted of the following:

	2021	2020
	EUR	EUR
Amounts receivable under factoring arrangements	39 827 659	22 159 522
Impairment of factoring and other amounts receivable (-)	(133 023)	(119 349)
Total factoring and other receivables	**39 694 636**	**22 040 173**

16. Other assets

As at 31 December other current assets consisted of amounts receivable, deferred costs and accrued income set out below:

Other non-financial assets:	2021	2020
	EUR	EUR
Receivable VAT	-	272
Receivable EU VAT	902	465
Receivables from accountable persons	1 650	2 331
Total amounts receivable	**2 552**	**3 068**

Other financial assets:	2021	2020
	EUR	EUR
Amounts receivable from subsidiary	-	2 712
Value of amounts receivable (collateral)	24 450	21 093
Other receivables	84 449	7 560
	108 899	**31 365**

Deferred costs	2021	2020
	EUR	EUR
Membership and subscription fees	-	287
Line of insurance	-	7 468
Other deferred costs	315 818	178
Total deferred costs	**315 818**	**7 933**

Other deferred costs mainly comprise advances paid to Raisin GmbH for the use of deposit platform.

17. Cash and cash equivalents

	2021	2020
	EUR	EUR
Cash at bank	54 526 944	4 862 829
Impairment of cash at bank (-)	(4 102)	(2 140)
Total cash and cash equivalents	**54 522 842**	**4 860 689**

The cash and cash equivalents of the Bank are carried at amortised cost in the statement of financial position. The cash and cash equivalents of the Bank are held with commercial banks that are rated at least Baa2 to Aaa, based on Moody's Credit ratings.
As at 31 December 2021 the Bank has recognised impairment of cash at bank in the amount of EUR 4 102 (2020: EUR 2 140).

18. Authorised share capital

On 24 September 2020, based on the decision of the sole shareholder, the share capital was increased by EUR 16 424 791 (converting the loan granted by the shareholder to share capital). As at 31 December 2021 and 2020, the Bank's share capital consisted of 36 424 791 ordinary shares with the par value of EUR 1 each. All shares are fully paid. A share shall not be divided into parts. All shares issued by the Bank are uncertificated ordinary registered shares.

A legal reserve is a compulsory reserve under Lithuanian legislation. An annual transfer of 5% of net profit is compulsory until the total of the reserve reaches 10% of the share capital. As at 31 December 2021 the Bank's accumulated loss was EUR 2 156 121 and the legal reserve was not formed (2020: accumulated loss of EUR 2 062 125).

At the date of signing the financial statements, draft of the profit (loss) appropriation project was not yet prepared.

19. Deposits

As at 31 December, the Bank’s deposits consisted of the following:

	2021	2020
	EUR	EUR
Deposits of individuals	118 774 205	1 066 291
Deposits of legal entities	23 075 842	5 001 111
	141 850 047	**6 067 402**

20. Other liabilities

As at 31 December other liabilities consisted of the following:

	2021	2020
	EUR	EUR
Accrued expenses	318 851	47 753
Profit tax payable	-	-
VAT payable	45 200	-
Provisions for off-balance sheet liabilities	137 404	-
Other amounts payable	796 573	803 882
Employment related liabilities	454 057	208 609
Advances received	1 495	1 495
Payables from factoring arrangements	3 232 642	1 743 593
	4 986 221	**2 805 332**

21. Transactions with related parties

During the year ended 31 December the following transactions occurred with related parties:

Entities of the same ultimate beneficial owners

	2021	2020
	EUR	EUR
Sales and purchases of goods and services		
Purchase of goods/services	330 786	585 385
Purchases of property, plant and equipment	105 959	120 150
Total	**436 745**	**705 535**

The following balances are outstanding at the end of the reporting period in relation to transactions with entities of the same ultimate beneficial owners:

	2021	2020
	EUR	EUR
Amounts payable (purchases of goods and services, loans and interest)		
Entities of the same ultimate beneficial owners	128 302	705 535
Total	**128 302**	**705 535**

	2021	2020
	EUR	EUR
Loans to parent companies (including accrued interest)		
Loan to PayRay SIA	5 025 809	-
Total	**5 025 809**	**-**

The loans issued by PayRay SIA mature in March 2023. All loans are subject to fixed interest rates.

Key management personnel

There were no issued loans to the key management personnel during the financial year.

Compensation of key management personnel of the Bank. Number of key management personnel in 2021 – 14 (2020: 19):

	2021	2020
	EUR	EUR
Remuneration (including bonuses)	1 179 179	313 121
	1 179 179	**313 121**

22. Risk management

The Bank is exposed to the following risks:
• capital risk;
• credit risk;
• liquidity risk;
• operational risk.

Risk management framework

The Bank uses three lines model for risk management. The Bank's management has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank employs Chief Risk Officer, who is responsible for identification, monitoring of risks and implementing risk management policies and practices in the Bank.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank's Internal Auditor oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank's Management.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support their business and to maximise the shareholders' value. Capital is managed by complying with legislative requirements and following the activity plans set by the Bank's managing bodies. In addition, the level of assumed risks is assessed not only in current situation, but also considering future prospects and the effect of possible adverse factors.

During the reporting period, the Bank complied with all prudential ratios. Ratios applicable to the Bank:
- Capital adequacy - standard 10.5%,
- Liquidity ratio - standard 100%,
- Maximum loan - standard 25% from the Bank's capital. As at 31 December 2021, potential maximum amount comprised EUR 8.5 million.

Interest rate risk

The key source of interest rate risk at the Bank is interest rate risk and revaluation risk. The risk arises due to mismatch between the repurchase and revaluation terms of assets and liabilities resulting from the change in yield curve or resulting from interest rate options which may have an effect on future cash flows or due to differing reactions of yield curves to changes in interest rates. For the calculation of IRRBB, the Bank uses net interest income sensitivity and sensitivity of owned property economic value (OPEC). Based on regulatory guidelines and internal assessment of a situation, the Bank sets interest rate floor for negative interest rates scenarios.

In 2021, the Bank performed stress testing of interest rate in risk bank book by analysing net interest income and OPEC sensitivity. Impact on OPEC was assessed for all 6 standard scenarios specified in EBI guidelines.

Credit risk

Credit risk is a risk that the Bank will incur financial losses, if a debtor or other counterparty fails to fulfil its liabilities. Credit risk arises principally from the Bank's loans, factoring arrangements and other advances to customers and banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk and sector risk.

22. Risk management (continued)

Management of credit risk

The Bank created the Credit Committee for the oversight of credit risk. Chief Risk Officer, reporting to the top Management of the Bank and to the Credit Committee, is responsible for managing the Bank's credit risk, including the following:
• *formulating credit policies*, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with any regulatory and statutory requirements; All authorisation limits are allocated to the Credit Committee;
• *reviewing and assessing credit risk:* Chief Risk Officer assesses all credit exposures before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process;
• *limiting concentrations of exposure* to counterparties, geographies and industries (for loans, factoring arrangements, advances and similar exposures), and by issuer and credit rating band;
• *developing and maintaining the Bank's risk gradings* to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 15 grades reflecting varying degrees of risk of default (see Table 'Credit risk grades and corresponding probabilities of default'). The responsibility for setting risk grades lies with the Chief Risk Officer. Risk grades are subject to regular reviews by Chief Risk Officer;
• *developing and maintaining the Bank's processes for measuring ECL.* This includes processes for:
  • initial approval, regular validation and back-testing of the models used;
  • determining and monitoring significant increase in credit risk; and
  • incorporation of forward-looking information.
• reviewing compliance of credit portfolio with agreed exposure limits, including those for selected industries and product types. Regular risk reports on the credit quality of Bank's portfolios are provided to the Bank's top Management and Credit Committee, which may require appropriate corrective actions to be taken. These include reports containing estimates of ECL allowances.
• *providing advice, guidance and specialist skills* to the Bank's employees to promote best practice throughout the Bank in the management of credit risk.

Credit risk grades and corresponding probabilities of default:

	Risk grade	PD from	PD to
	A1	0.00%	0.19%
Low risk customers	A2	0.20%	0.29%
	A3	0.30%	0.49%
	B1	0.50%	0.69%
Medium risk customers	B2	0.70%	1.09%
	B3	1.10%	1.69%
	C1	1.70%	2.59%
Increased risk Customers	C2	2.60%	3.79%
	C3	3.80%	5.69%
	D1	5.70%	8.39%
High risk Customers	D2	8.40%	12.19%
	D3	12.20%	17.39%
	E1	17.40%	24.19%
Customers with default indication	E2	24.20%	32.59%
	E3	32.60%	100.00%

22. Risk management (continued)

Regular audits of the Bank's Credit Risk Management processes are undertaken by Internal Audit.

Diversification of credit portfolio as at 31 December 2021:

Industry sector	Outstanding Nominal, EUR thousand	Outstanding Nominal, %
A. Agriculture, forestry and fishing	3 858	3.13%
B. Mining and quarrying	128	0.10%
C. Manufacturing	12 416	10.09%
D. Supply of electricity, gas, vapour and air conditioning	4 388	3.57%
E. Water supply	89	0.07%
F. Construction	3 527	2.87%
G. Wholesale and retail trade	41 551	33.76%
H. Transportation and storage	20 687	16.81%
I. Accommodation and food service activities	96	0.08%
J. Information and communication	102	0.08%
K. Financial and insurance activities	7 132	5.79%
L. Real estate affairs	13 329	10.83%
M. Professional, scientific and technical activities	3 110	2.53%
N. Administrative and support service activities	5 754	4.68%
O. Public administration and defence; compulsory social security	-	0.00%
P. Education	34	0.03%
Q. Human health and social work activities	576	0.47%
R. Arts, entertainment and recreation	38	0.03%
S. Other services	5 025	4.08%
Natural persons	1 237	1.01%
	123 077	**100.00%**

Diversification of credit portfolio as at 31 December 2020:

Industry sector	Outstanding Nominal, EUR thousand	Outstanding Nominal, %
A. Agriculture, forestry and fishing	15	0.04%
B. Mining and quarrying	-	0.00%
C. Manufacturing	6 779	18.25%
D. Supply of electricity, gas, vapour and air conditioning	190	0.51%
E. Water supply	15	0.04%
F. Construction	395	1.06%
G. Wholesale and retail trade	13 919	37.48%
H. Transportation and storage	8 151	21.95%
I. Accommodation and food service activities	-	0.00%
J. Information and communication	35	0.09%
K. Financial and insurance activities	-	0.00%
L. Real estate affairs	15	0.04%
M. Professional, scientific and technical activities	3 249	8.75%
N. Administrative and support service activities	2 218	5.97%
O. Public administration and defence; compulsory social security	-	0.00%
P. Education	-	0.00%
Q. Human health and social work activities	-	0.00%
R. Arts, entertainment and recreation	-	0.00%
S. Other services	2 138	5.76%
Natural persons	19	0.05%
	37 138	**100.00%**

22. Risk management (continued)

Impairment of financial assets

The Bank has three types of financial assets that are subject to the expected credit loss model:
• factoring and other receivables, which are subject to all types of factoring arrangements;
• loans granted;
• cash and cash equivalents.

Portfolio based on the type of financial assets as at 31 December:

	Outstanding Nominal 2021, EUR	Protected with insurance**, 2021	Outstanding Nominal 2020, EUR	Protected with insurance**, 2020
Factoring				
recourse	11 480 353	-	11 204 517	3 288 919
non-recourse	5 751 423	-	4 495 218	1 021 371
limited recourse	22 462 860	22 464 332	6 340 438	6 340 438
reverse	-	-	-	-
Total factoring	**39 694 636**	**22 464 332**	**22 040 173**	**10 650 728**
Loans and borrowings	82 548 227	-	15 098 212	10 155 916
Finance lease	834 712	-	-	-
Total	**123 077 575**	**22 464 332**	**37 138 385**	**20 806 644**

*Trade credit insurance by Atradius, Euler Hermes or Coface
**Trade credit insurance by Invega guarantee, Atradius, Euler Hermes, Coface, Nexus or guarantee by European Investment Fund

22. Risk management (continued)

The loss allowance as at 31 December was determined as follows for amounts receivables and loans granted:

	2021	2020
	EUR	EUR
Gross carrying amount – factoring receivables	39 827 660	22 159 522
Gross carrying amount – loans	83 370 621	15 431 683
Gross carrying amount – finance lease	836 189	-
Gross outstanding debt nominal	**124 034 470**	**37 591 205**
Loss allowance - factoring receivables	(133 023)	(119 349)
Loss allowance – loans granted	(822 066)	(333 471)
Loss allowance – finance lease	(1 806)	-
Total loss allowance	**(956 895)**	**(452 820)**
Total outstanding debt nominal	**123 077 575**	**37 138 385**

The loss allowance as at 31 December 2021 for factoring and other receivables and loans granted set by customers risk level:

	Risk grade	Outstanding Nominal, EUR	ECL, EUR	Outstanding Balance, EUR
	A1	-	-	-
Low risk customers	A2	191 832	(227)	191 605
	A3	2 293 737	(1 615)	2 292 122
	Total	**2 485 569**	**(1 842)**	**2 483 727**
	B1	8 502 185	(10 013)	8 492 172
Medium risk customers	B2	12 517 126	(26 810)	12 490 316
	B3	31 424 972	(124 746)	31 300 225
	Total	**52 444 283**	**(161 570)**	**52 282 713**
	C1	52 583 608	(281 745)	52 301 863
Increased risk Customers	C2	3 577 951	(18 545)	3 559 406
	C3	11 757 687	(224 011)	11 533 676
	Total	**67 919 246**	**(524 301)**	**67 394 945**
	D1	632 381	(7 612)	624 768
High risk Customers	D2	-	-	-
	D3	-	-	-
	Total	**632 381**	**(7 612)**	**624 768**
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	552 992	(261 570)	291 422
	Total	**552 992**	**(261 570)**	**291 422**
Total		**124 034 470**	**(956 895)**	**123 077 575**

22. Risk management (continued)

The loss allowance as at 31 December 2020 for factoring and other receivables and loans granted set by customers risk level:

	Risk grade	Outstanding Nominal, EUR	ECL, EUR	Outstanding Balance, EUR
	A1	-	-	-
Low risk customers	A2	-	-	-
	A3	1 549 566	(1 718)	1 547 848
	Total	**1 549 566**	**(1 718)**	**1 547 848**
	B1	2 228 917	(4 387)	2 224 530
Medium risk customers	B2	5 015 049	(17 963)	4 997 086
	B3	12 761 118	(91 890)	12 669 228
	Total	**20 005 084**	**(114 240)**	**19 890 844**
	C1	14 918 123	(84 751)	14 833 372
Increased risk Customers	C2	663 642	(4 111)	659 531
	C3	95 594	(461)	95 133
	Total	**15 677 359**	**(89 323)**	**15 588 036**
	D1	-	-	-
High risk Customers	D2	-	-	-
	D3	-	-	-
	Total	**-**	**-**	**-**
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	359 196	(247 539)	111 657
	Total	**359 196**	**(247 539)**	**111 657**
Total		**37 591 205**	**(452 820)**	**37 138 385**

Contingent assets and liabilities

The Bank's standard factoring and loan agreements may be at any time and without prior noticed unconditionally terminated. Accordingly, expected credit losses are not calculated on unused limit.

Loss allowances for off-balance sheet liabilities according to customer risk level as at 31 December 2021:

	Risk grade	Nominal value of off-balance sheet liabilities, EUR	ECL, EUR	Balance, EUR
	A1	-	-	-
Low risk customers	A2	208 168	-	208 168
	A3	3 163 162	-	3 163 162
	Total	**3 371 330**	**-**	**3 371 330**
	B1	7 574 531	-	7 574 531
Medium risk customers	B2	11 525 536	(61)	11 525 476
	B3	16 197 765	(381)	16 197 385
	Total	**35 297 833**	**(441)**	**35 297 392**
	C1	27 559 689	(54 803)	27 504 886
Increased risk Customers	C2	5 183 265	(8 632)	5 174 634
	C3	8 247 595	(38 235)	8 209 359
	Total	**40 990 549**	**(101 670)**	**40 888 879**
	D1	2 168 644	(35 293)	2 133 351
High risk Customers	D2	-	-	-
	D3	-	-	-
	Total	**2 168 644**	**(35 293)**	**2 133 351**
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	638 503	-	638 503
	Total	**638 503**	**-**	**638 503**
Total		**82 466 859**	**(137 404)**	**82 329 456**

22. Risk management (continued)

Loss allowances for off-balance sheet liabilities for loans according to customer risk level as at 31 December 2020:

	Risk grade	Nominal value of off-balance sheet liabilities, EUR	ECL, EUR	Balance, EUR
	A1	-	-	-
Low risk customers	A2	-	-	-
	A3	-	-	-
	Total	**-**	**-**	**-**
	B1	180 071	-	180 071
Medium risk customers	B2	192 808		192 808
	B3	1 165 416		1 165 416
	Total	**1 538 295**	**-**	**1 538 295**
	C1	3 115 366		3 115 366
Increased risk Customers	C2	1 755		1 755
	C3			-
	Total	**3 117 121**	**-**	**3 117 121**
	D1			-
High risk Customers	D2	-	-	-
	D3	-	-	-
	Total	**-**	**-**	**-**
	E1	-	-	-
Customers with default indication	E2	-	-	-
	E3	-	-	-
	Total	**-**	**-**	**-**
Total		**4 655 416**	**-**	**4 655 416**

Carrying amount of loans at the end of 2020 and 2021 by stages:

	Stage 1		Stage 2		Stage 3	
	2021.12.31	**2020.12.31**	**2021.12.31**	**2020.12.31**	**2021.12.31**	**2020.12.31**
Factoring	39 675 246	21 965 041	-	-	19 389	75 132
Loans and borrowings	81 427 458	15 009 189	796 466	23 848	324 303	65 175
Finance lease	834 712	-	-	-	-	-
Total	**121 937 416**	**36 952 776**	**796 466**	**23 848**	**343 693**	**140 307**

Expected credit loss

The Bank's probability of default includes forward looking approach. When calculating expected credit losses, the clients' PDs are adjusted based on the GDP and unemployment rate forecasts presented by the Ministry of Finance of the Republic of Lithuania and of the Bank of Lithuania. Probabilities of default of Latvian customers are adjusted based on the GDP and unemployment rate forecasts presented by the Ministry of Finance of the Republic of Latvia and of the Bank of Latvia. The Bank uses three scenarios in its analysis: main scenario, positive and negative scenario assuming that the probability of the main scenario is 60%, of positive and negative – 20% each.

During 2021, no loans were written off.

The main assumptions impacting the expected credit losses are GDP, a country's unemployment rate and LGD.

Sensitivity analysis of these factors is presented in a table below.

LGD sensitivity analysis			
Scenario	**Change in rates**	**Value of allowances**	**Change in the value of allowances from base scenario**
Negative	LGD: +10%	1 281 372	185 068
Base		1 096 304	-
Positive	LGD: -10%	912 141	(184 163)

22. Risk management (continued)

FLI sensitivity analysis			
Scenario	Change in rates	Value of allowances	Change in the value of allowances from base scenario
Negative	GDP: -3% Unemployment rate: +3%	1 180 152	83 848
Base		1 096 304	-
Positive	GDP: +3% Unemployment rate: -3%	1 086 211	(10 093)

Movement of allowances during 2021 by stages:

	Amount of allowances at the beginning of 2021 (EUR thousand)	Change in allowances (EUR thousand)	Amount of allowances at the end of 2021 (EUR thousand)
Allowances for balance sheet financial assets:			
Cash and accounts in banks			
Stage 1	2	2	4
Loans to customers and factoring			
Stage 1	208	476	684
Stage 2	-	7	7
Stage 3	245	21	266
Total	**455**	**506**	**961**
Allowances for financial liabilities			
Stage 1	-	137	137
Total allowances:	**455**	**643**	**1 098**

Liquidity risk

'Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

Management of liquidity risk

The Bank sets the strategy for managing liquidity risk. The top Management approves the Bank's liquidity policies and procedures. Chief Financial Officer manages the Bank's liquidity position on a day-to-day basis.

The Bank's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:
- maintaining a diversified funding base and maintaining contingency facilities;
- carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding;
- stress testing of the Bank's liquidity position against various exposures and specific events.

22. Risk management (continued)

The following table sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets:

31 December 2021 EUR	Note	Carrying amount	Gross nominal inflow /(outflow)	0-3 months	3-6 months	6-12 months	More than 1 year
Financial liability by type							
Non-derivative liabilities							
Client deposits		141 850 047	143 093 732	14 528 140	17 014 157	-	111 551 436
Amounts payable		4 529 966	4 529 966	4 529 966	-	-	-
Lease liabilities		239 622	251 001	29 188	28 892	57 598	135 323
Accrued expenses and deferred income		318 851	318 851	318 851	-	-	-
		146 938 486	**148 193 551**	**19 406 145**	**17 043 049**	**57 598**	**111 686 759**
Financial asset by type							
Non-derivative financial assets							
Factoring and other amounts receivable		39 694 636	42 554 338	10 567 734	8 250 689	28 600	23 707 315
Loans issued to clients		83 382 938	88 647 924	905 118	3 852 968	365 226	83 524 612
Finance lease		834 712	884 795	-	-	206 469	678 326
Other financial assets		108 899	108 899	108 899	-	-	-
		124 021 186	**132 195 956**	**11 581 751**	**12 103 657**	**600 295**	**107 910 253**

31 December 2020 EUR	Note	Carrying amount	Gross nominal inflow /(outflow)	0-3 months	3-6 months	6-12 months	More than 1 year
Financial liability by type							
Non-derivative liabilities							
Client deposits		6 067 402	6 068 928		-	5 934 198	134 730
Amounts payable		2 757 579	2 757 579	2 757 579	-	-	-
Lease liabilities		132 786	136 887	26 555	26 555	46 193	37 584
Accrued expenses and deferred income		47 753	47 753	47 753	-	-	-
		9 005 521	**9 011 148**	**2 831 888**	**26 555**	**5 980 391**	**172 314**
Financial asset by type							
Non-derivative financial assets							
Factoring and other amounts receivable		22 040 173	23 752 694	8 044 136	6 246 823	8 645 348	816 387
Loans issued to clients		15 098 212	16 271 343	415 385	408 260	1 463 592	13 984 106
Other financial assets		31 365	31 365	31 365	-	-	-
		37 169 750	**40 055 403**	**8 490 886**	**6 655 083**	**10 108 941**	**14 800 493**

Operational risk

Operational risk is defined as the risk that could potentially cause losses due to human errors, inadequate or faulty internal processes, system failures or external events. This definition includes legal risk, reputational risks, but excludes strategic, business risks. The Bank divides operational risk and its management into the following areas: personnel risk (including management risk), process risk (including model risk), information risk, compliance risk (including anti-money laundering risk) and external risk (including outsourcing risk). External fraud is potentially the biggest operational threat for the Bank. There may be some fraud risks involved and some clients may try to exercise fraudulent activity against the Bank.

22. Risk management (continued)

Risks (not audited)	Material/Not Material (not audited)
Operational risk	Material
Anti-money laundering (AML) risk	Material

Operational and AML risk management

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all applicable legal and regulatory requirements.

Chief Risk Officer is responsible for operational risk management. Chief Risk Officer is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:
- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks;
- risk mitigation, including insurance where this is cost-effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the Bank.

The Bank has processes in place to mitigate the risks described above by: assessing the documents presented before financing, having verifications with the Buyer regarding authenticity of the invoices, monitoring the level of credit notes raised or direct Seller payments for the invoices, paying diligent approach to the contact information of the Buyer, using Know Your Customer (KYC) procedures, etc.

Managing the Bank's risks relating to money laundering and terrorist financing is an integral part of its overall risk management system. The process leader is Money Laundering Officer. He is responsible for the day to day implementation of the Bank's anti-money laundering and counter-terrorist financing policies as well as systems and controls which support and facilitate them. Considering the scope and nature of its business, the Bank implements money laundering and terrorist financing risk identification, assessment, and management procedures, as well as effective tools to mitigate such risks.

23. Fair value

The carrying values of the Bank’s principal financial instruments, trade and other payables, long-term and short-term borrowings, approximates their fair values. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The carrying of financial liabilities not measured at fair value approximates their fair value.

	Carrying amount	Fair value	Carrying amount	Fair value
	31 December 2021		31 December 2020	
	EUR	EUR	EUR	EUR
Financial assets				
Cash and balances with central banks	54 522 842	54 522 842	4 860 689	4 860 689
Loans issued to clients	82 548 226	82 548 226	15 098 212	15 098 212
Factoring and other amounts receivable	39 694 636	39 694 636	22 040 173	22 040 173
Finance lease	834 712	834 712	-	-
Other financial assets	108 899	108 899	31 365	31 365
Financial liabilities				
Client deposits	141 850 047	141 850 047	6 067 402	6 067 402
Other financial liabilities	4 529 966	4 529 966	2 757 579	2 757 579

Quantitative disclosures of the Bank's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2021:

	Level 1	level 2	level 3	Total
	EUR	EUR	EUR	EUR
Financial assets				
Cash and balances with central banks	54 522 842		-	54 522 842
Loans issued to clients	-	82 548 226	-	82 548 226
Factoring and other amounts receivable	-	39 694 636	-	39 694 636
Finance lease	-	834 712	-	834 712
Other financial assets	-	108 899	-	108 899
Financial liabilities				
Client deposits		141 850 047		6 067 402
Other financial liabilities	-	4 529 966	-	4 529 966

Quantitative disclosures of the Bank's financial assets and liabilities in the fair value measurement hierarchy as at 31 December 2020:

	Level 1	level 2	level 3	Total
	EUR	EUR	EUR	EUR
Financial assets				
Cash and balances with central banks	4 860 689		-	4 860 689
Loans issued to clients	-	15 098 212	-	15 098 212
Factoring and other amounts receivable	-	22 040 173	-	22 040 173
Finance lease	-	-	-	-
Other financial assets	-	31 365	-	31 365
Financial liabilities				
Client deposits	-	141 850 047	-	141 850 047
Other financial liabilities	-	4 529 966	-	4 529 966

24. Contingent liabilities

In 2020, the Bank had a law case where it was a defendant (the case was started in 2019). Plaintiff was accusing the Bank of unfair competition. The amount of lawsuit is EUR 208 000. On 4 June 2021, a settlement agreement was concluded and the plaintiff waived all its claims and the case was closed.

There are no other cases where the Bank acts as a defendant or a third party.

25. Significant events after the end of the reporting period

On 24 February 2022, following the recognition of self-proclaimed republics of Donetsk and Lugansk by the Russian Federation and its subsequent invasion of Ukraine, the military conflict escalated and spread to other regions of that country. The current escalation of the military conflict is likely to have a detrimental impact on the political and business environment in Ukraine, including on the ability of many entities to continue business as usual. In view of the above, as at the date these financial statements were authorised for issue, the situation in Ukraine is extremely volatile and inherently uncertain.

PayRay Bank, UAB (“the Bank”) administration took immediate actions to assess the potential impact of the war and sanctions on the Russian Federation and the Republic of Belarus (“High risk countries”).

To mitigate and manage the impact of sanctions on the quality of the Bank’s assets, working group was formed for approval of action plans by each client individually. Customer relations managers contacted clients to clarify the opinion of management regarding the situation, their relations with High risk countries, potential human-resource issues and further plans regarding going concern. All gathered information was used to assess potential losses.

Based on the Bank’s current KPI’s and the Bank’s operations in other markets, the Bank’s management does not anticipate a direct immediate and significant adverse impact of the current situation as described in the previous paragraphs on the Bank, its operations, financial position and operating results. Management cannot however preclude the possibility of an escalation of the general market uncertainty to other markets, or a consequential adverse impact on the economic environment the Bank operates, that might have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term.

On 25 March 2022, PayRay Bank, UAB concluded a transaction with a company established in Italy Optima Information Technology S.r.l., tax payer's code 03722491200, on the acquisition of its business.

There were no other events after the reporting period which would have effect on these separate financial statements or require additional disclosure.

Director
Renato La Fianza

Renato La Fianza		5 April 2022
	(signature)	(date)

Person authorised by BDO Auditas ir Apskaita

Simona Giedraitienė		5 April 2022
	(signature)	(date)